UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/AC.96/917/Add.1
3 September 1999

Original: ENGLISH

EXECUTIVE COMMITTEE OF THE
HIGH COMMISSIONER'S PROGRAMME

Fiftieth session

REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1998

Addendum 1 - Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1998.

GE.99-4170

I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the Recommendations of the Board of Auditors, as set out in paragraph 12 of their Report (A/AC.96/917). Unless indicated otherwise, all references in the text relate to this document.

Financial management

II. RECOMMENDATION 12 (a)

2. Treat advances to implementing partners as accounts receivable at the time the advances are made and clear the advances to expenditure on receipt of satisfactory financial reports; and also persevere with its efforts to clear the outstanding balances of cash advances expeditiously, particularly the balances relating to earlier years (para. 27);

Measures Taken by the Administration

UNHCR reviewed the accounting practices relating to the accounting for instalments paid to, and reports received from, implementing partners. Management has agreed that, with the introduction of the new Integrated Systems Project (ISP), UNHCR will consider instalments to partners as a working advance and record it as a current asset (i.e. same as an account receivable), simultaneously UNHCR will also record the expenditure and create an obligation. The portion of the instalments which has not been reported upon at the end of the year will be recorded as an account receivable. The proposed changes introduce detailed accounting which current systems were not designed to accommodate, and cannot be modified in a cost-effective manner to do so. UNHCR will be able to adopt the new accounting practice only when the proposed ISP has been implemented. The implementation is expected to be phased so that the full impact of the change in accounting will be reflected in the accounts only once implementation has been completed. It is not expected that this will be done for the accounts of 1999 and 2000.

The balances due from partners have been reduced significantly due to UNHCR's intensified efforts to obtain reports from partners and the introduction of new rigorous measures that ensure that further instalments are not paid if the implementing partners have not submitted the required reports.

The situation reflected in paragraph 21 of the Report has improved and the outstanding balance for the period 1994 to 1997 has been brought down from $ 63.5 million at 31 March 1999 to $ 40.4 million at 31 July 1999. With regard to 1998 projects, the situation as of 31 March 1999, described in paragraphs 22 and 23 of the Report, is not unusual three months after the end of the year, when a certain percentage of the instalments paid to implementing partners remains unreported. This is principally attributable to project liquidation periods of three months after the closure of the UNHCR accounts on 31 December 1998, and to the fact that final reporting is due one month after the liquidation period, i.e. 30 April 1999, whereas the Board of Auditors considered the situation at 31 December 1998. The amount of $ 92.8 million at 31 March 1999, which represented 26.8 per cent of the $ 346.4 million spent through implementing partners in 1998, has been brought down to $ 36.1 million at 31 July 1999

III. RECOMMENDATION 12 (b)

3. assess the reasons for non-compliance by respective government and non-governmental implementing partners with the requirement to render audit certificates as prescribed in the sub-agreements; and draw up a strategy, in consultation with the Board of Auditors, for securing sufficient audit certificates, based on the materiality and perceived level of risk of individual projects, to provide adequate evidence in support of expenditure reported by implementing partners (para. 35 (a) and (b));

Measures Taken by the Administration

(i) During the last quarter of 1999, the Division of Resource Management and the Department of Operations will evaluate the compliance rate for 1998 projects and, based on the results, determine why some UNHCR implementing partners are unable to comply with the requirement to submit audit certificates.

The compliance status for 1998, by category, at the end of July 1999 is summarized below:

Government Partners:	2.5 per cent
International NGOs :	43.1 per cent
National NGOs :	22.2 per cent

The overall compliance rate stands at 30 per cent and UNHCR expects that, by the end of the third quarter of 1999, this rate will reach some 70 per cent.

UNHCR believes that the majority of the international non-governmental organizations (NGOs) will respond positively, as was the case for 1997 with a compliance rate of 83 per cent. As for national NGOs, UNHCR will continue its coaching and training efforts, as well as assisting these NGOs in identifying independent audit bodies to carry out the work. The compliance rate for this category in 1997 stands at 52.3 per cent.

With regard to government partners, UNHCR's influence is limited. In addition, in certain countries UNHCR has no alternative than to work with government partners.

In order to accelerate and improve compliance with the requirement to submit audit reports, UNHCR could consider paying for these audits to allow government auditors to give priority to UNHCR-funded activities rather than to other areas under their jurisdiction. This change in policy would entail additional costs, which the donors would have to agree to fund.

Notwithstanding the current low compliance rate, UNHCR expects that other audit reports will be received. One government has officially informed UNHCR that their audited financial statements for 1998 will be made available to UNHCR by November 1999. UNHCR also recently received audit certificates for projects implemented in 1996 and 1997 from the Chief of Audit of another government, where audits are performed on a biennium basis.

The compliance rate of this category for 1997 projects is 56.3 per cent.

(ii) UNHCR concurs with the Board of Auditors' recommendation and will initiate discussions with the Board during the forthcoming audit at UNHCR Headquarters in October 1999.

Furthermore, as part of the UNHCR systems renewal process currently under way and the upcoming gap analysis between "old" systems, current and future requirements, and what is offered by the selected supplier, the issue of a structured approach to financial risk analysis and performance evaluation of UNHCR's implementing partners is being studied, and a policy paper is being finalized, to be shared with the Board of Auditors.

Management issues

IV. RECOMMENDATION 12 (c)

4. Ensure that work plans are programme specific and that they are prepared as an integral part of the project planning and monitoring process (para. 53);

Measures Taken by the Administration

The requirement to prepare workplans is an integral part of UNHCR project planning and is contained in the UNHCR Manual Chapter 4, Section 4.3, paragraph 1.1. This paragraph specifies that workplans should be prepared "as applicable". This implies that a number of projects may not require a detailed work plan. This situation is due to the fact that many UNHCR projects cover recurrent activities to assist refugees, and that in view of their recurrent nature, a workplan of such activities would be repetitive. Furthermore, in emergency situations UNHCR is required to respond rapidly, and workplans easily become ineffectual when situations are volatile.

As part of its new Operations Management System, UNHCR will introduce on a phased basis as from the year 2000, new software which provides a hierarchy of objectives allowing outputs and activities to be incorporated into a scheduler, thus providing a work plan for implementation, whenever applicable.

V. RECOMMENDATION 12 (d)

5. Exercise stricter control over the progress of work of implementing partners in order to ensure achievement of the stated objectives; and recover the savings of $371,368 from the implementing partners concerned (para. 68);

Measures Taken by the Administration

The issue identified by the Board of Auditors of decreased expenditure on some items offset by excess expenditure on others, including cooking-wares and ice boxes, was thoroughly reviewed by the Branch Office concerned. Although clarifications were requested, no additional explanation was provided by the government partner. It should be noted that this partner had made a significant financial contribution to the refugee emergency operation in September 1996. In October 1996, the Branch Office requested the government partner to allow a financial monitoring exercise to be undertaken

by UNHCR staff in order to verify the field office's report versus the partner's actual spending, but this was strongly opposed.

The UNHCR Branch Office will continue to pursue the refund with the government partner and to remind them of the importance of adhering to the conditions mutually agreed for project implementation.

VI. RECOMMENDATION 12(e)

6. Review completed projects to ensure that they are promptly closed (para. 76);

Measures Taken by the Administration

Financial Resources Service is actively taking measures to address the timely closure of projects. Currently one staff member, on temporary assistance, is focusing full-time on the review and closure of sub-projects and projects. Additional provisions to employ two staff for three months to further address the back log of sub-projects and projects awaiting closure have been initiated.

VII. RECOMMENDATION 12 (f)

7. Update plans still to be implemented under Project Delphi and prioritise those activities which can be implemented with the available resources; and monitor the implementation of those plans to ensure that they achieve their objectives (para. 106).

Measures Taken by the Administration

With reference to paragraph 93 of the Report, it must now be recognized that a number of the actions foreseen within the Project Delphi Action Plan (conference room paper EC/46/SC/CRP.48 provided to the fourth meeting of the Standing Committee of the Executive Committee in September 1996) were overly ambitious in terms of the estimated timeframe. At the time, it was not fully recognized that the change effort being entered into under the umbrella of Project Delphi was the largest internal project upon which UNHCR had ever embarked and that it would require a considerable investment of resources to achieve its aims. Moreover, a number of the anticipated changes are dependent upon the implementation of new systems to replace UNHCR's existing financial system. The following table shows the Project Delphi actions listed in paragraphs 92 to 99 of the Report:

Delphi Action	Comment	Further Action Planned	Timeframe
Elaboration of measurable objectives for assistance activities.	The new Operations Management System emphasizes a hierarchy of objectives using the Logical Framework approach. This is being introduced gradually in planning documents and includes measurable outputs through the inclusion of indicators.	The new planning methodology will be introduced in the field through a series of workshops, as well as through the provision of software support tools.	Workshops will be undertaken by the OMS Section from the end of 1999 through 2001 to ensure a global coverage. New software support will be provided during the course of 2000, as well as training in its use.
Development of operational guidelines, standards, norms, indicators, benchmarks, and the elaboration of self-evaluation mechanisms.	(a) A new Knowledge and Information Management System (KIMS) was issued in April 1999 on CD-ROM for the field. This includes a large section on operational guidance.	(a) KIMS will be issued every six months, including an update on operational guidance.	(a) The next issue of KIMS, with input on operational guidance material from the Operations Management System (OMS) Section, will be in August/ September 1999.
	(b) UNHCR has contributed to the work of the Sphere Project which is seeking to establish a set of universal minimum standards and indicators in core areas (water supply and sanitation, shelter and site planning, nutrition, health services, and food aid).	(b) UNHCR is examining the most appropriate way of incorporating this into its operational guidance for use in agreements with implementing partners.	(b) The project format will be redesigned to incorporate the Logical Framework for introduction during the course of 2000. This will include two columns showing performance indicators and means of verification.
	(c) UNHCR plans to reintroduce a standard self-evaluation mechanism into its projects.	(c) A new format and guidance for self-evaluation will be introduced into a revised Chapter 4 (Project Management).	(c) The OMS Section will finalize this during the first half of 2000 and issue it in KIMS in August 2000, as

Delphi Action	Comment	Further Action Planned	Timeframe
			well as include it in OMS training.
Improved management of obligation levels.	This is planned for automation as a "funds available" process in the financial module of the ISP. The new software system has been selected.	A gap analysis will be carried out shortly to determine what modifications may be necessary to the standard version of the new software.	Implementation by Financial Resources Service will take place over the next two to three years within the ISP led by the Information Technology and Telecommunications Service (ITTS).
Intranet access to field offices.	By the end of 1998, five field locations had access to the Intranet and this number is steadily increasing during 1999.	The roll-out of the Intranet to field locations will continue, taking into account national communication infrastructure in place.	The Intranet Services Unit in ITTS plans to link up the majority of staff by the end of 2000.
Reduction of staff at Headquarters to fit into one building.	Some progress has been made and several units have been moved into the main building at Headquarters following a reduction of posts in 1997 and 1998. However, ongoing emergencies, such as Kosovo, has meant that the size of Headquarters has stabilized for the time being.	While staff requirements at Headquarters will always be kept under review, it is not foreseen at this stage, given current operations, that all staff will be able to fit into one building.	To be kept under review by the Division of Resource Management.

The above actions and timeframes will be monitored to ensure that the stated objectives under "Further Action Planned" are achieved.